

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name GRSD SEWER AUTHORITY	County BERRIEN
Audit Date 12/31/04	Opinion Date 4/29/05	Date Accountant Report Submitted to State: 5/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) MCMURRAY, MARKS & EDMUNDS			
Street Address 805 VAN BRUNT AVENUE	City ST. JOSEPH	State MI	ZIP 49085
Accountant Signature <i>Michael W. Fayher</i>		Date 5/25/05	



GRSD SEWER AUTHORITY

**FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION**

December 31, 2004 and 2003



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of GRSD Sewer Authority

We have audited the accompanying basic financial statements of the GRSD Sewer Authority as of December 31, 2004 and for the year ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the GRSD Sewer Authority as of December 31, 2003 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated May 18, 2004.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements, referred to above, present fairly, in all material respects, the financial position of the GRSD Sewer Authority as of December 31, 2004, and the changes in financial position and cash flows, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, GRSD Sewer Authority has implemented a new financial reporting model, as required Government Accounting Standards Board No. 34, *"Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments"* as of January 1, 2004.

The management discussion and analysis on pages 2 through 5 are not a required part of the basic financial statements, but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads 'McMurray, Marks & Edmunds'.

McMurray Marks & Edmunds
St. Joseph, Michigan
April 29, 2005

About the Facility

The GRSD Sewer Authority (the "Authority") was established by the Townships of New Buffalo, Lake Charter, and Chikaming, and the City of New Buffalo. The City of Bridgman was admitted under a separate agreement in 2003. The Authority was incorporated on October 13, 1971 as the Galien River Sanitary District (the "District"), under the provisions of Act 233, Public Acts of Michigan of 1955, as amended. The Authority is governed by a board comprised of six (6) members, with one (1) representative appointed from each of the five (5) constituent municipalities and one (1) independent member elected by the other five (5) members. The Authority was formed to operate, maintain, administer, and manage a sewage collection and disposal system pursuant to Act 185, Public Acts of 1957, as amended, for the benefit of the constituent municipalities.

The Authority operates a two (2) million gallon per day sanitary sewage treatment plant for its owner municipalities. The connected service population is approximately 13,500. The Authority is currently expanding its capacity to handle an additional 1.012 million gallons per day.

Financial Highlights

The Authority's total net assets at December 31, 2004 were \$15,140,173, of which \$9,323,165 was invested in capital assets. At December 31, 2003, net assets were \$14,962,269.

The Authority's total expenses were \$1,275,128, while total revenues were \$1,453,032 (\$1,288,434-operating; \$164,598-non-operating.)

Overview of the Financial Statements

This report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *supplemental information*. The basic financial statements include only one kind of statement as the Authority is a special purpose governmental entity and no reconciling items exist between the entity and a government-wide statement.

Government-wide statements and the fund financial statements are presented as one set as they both provide the long-term and short-term information about the Authority's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Authority as a Whole

The following table represents condensed financial information about the Authority's financial position. Total nets assets increased by \$177,904 from 2003 to 2004 with nets assets of \$15,140,173 at December 31, 2004 and \$14,962,269 at December 31, 2003.

	<u>2004</u>	<u>2003</u>
Current Assets	\$ 1,091,339	\$ 945,986
Restricted Assets	5,435,494	9,627,082
Capital Assets	9,323,165	4,460,244
Total Assets	<u>\$ 15,849,998</u>	<u>\$ 15,033,312</u>
Current liabilities	<u>\$ 709,825</u>	<u>\$ 71,043</u>
Net Assets		
Invested in capital assets	\$ 9,323,165	\$ 4,460,244
Unrestricted	5,817,008	10,502,025
Total Net Assets	<u>\$ 15,140,173</u>	<u>\$ 14,962,269</u>

The following table represents the condensed financial information about the Authority's revenues and expenses. The change in net assets was \$177,904 and \$(118,539) for the years ended December 31, 2004 and 2003, respectively.

	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 1,288,434	\$ 1,062,538
Operating expenses	1,275,128	1,220,898
Operating income	\$ 13,306	\$ (158,360)
Non-operating income	164,598	39,821
Change in net assets	<u>\$ 177,904</u>	<u>\$ (118,539)</u>

Analysis of Financial Position

The current year net assets increased \$177,904, with a few significant factors affecting net assets during the year are discussed below:

- 1) Operating revenues exceed operating expenses by \$13,306, with an additional \$164,598 of non-operating interest income received.
- 2) The Authority's investment in capital assets had an increase of \$4,862,921 from \$5,006,393 of acquisition and construction of capital assets less \$143,472 of current year depreciation.

Results of Operations

The Authority increased operating income by \$171,666 over last year as a result of the following:

- 1) Operating revenues increased \$225,896 or 21.26% as a result of increased flows from the tributary governmental units and increased rates.
- 2) Operating expenses increased \$54,230 or 4.44% as the plant continues to manage those costs in the wake of rising natural gas and electrical rates and increased employee benefit costs, especially in the area of health insurance premiums. Management recognizes that control over year to year operating costs is essential to the long-term financial health of the facility. Efforts to control operating costs are ongoing.
- 3) Nonoperating interest income has significantly contributed to the Authority's overall revenue base. This is due to the large amount of dollars available from the conduit bond proceeds and capital contributions from the governmental units for the plant expansion project. Funding requirements for the completion of this project will continue to deplete the Authority's cash and investments, and also negatively impact future nonoperating interest income.

Fund Expenditures Budget vs. Actual

Expenditures

<u>Period</u>	<u>Original and Final Budget</u>	<u>Final Audit</u>	<u>Variance Audit vs. Final Budget</u>
December 31, 2004	\$ <u>1,392,500</u>	\$ <u>1,275,128</u>	\$ <u>117,372</u>
December 31, 2003	\$ <u>1,310,250</u>	\$ <u>1,220,898</u>	\$ <u>89,352</u>

Fund Expenditures Budget vs. Actual

Revenues

<u>Period</u>	<u>Original and Final Budget</u>	<u>Final Audit</u>	<u>Variance Audit vs. Final Budget</u>
December 31, 2004	\$ <u>1,298,738</u>	\$ <u>1,453,032</u>	\$ <u>(154,294)</u>
December 31, 2003	\$ <u>1,159,250</u>	\$ <u>1,102,359</u>	\$ <u>56,891</u>

Original versus Final Budget

There were no changes or amendments to the original preliminary budget to the final budget.

Capital Improvements and Funding Requirements

Funding needs for capital improvements is a significant element in the Authority's financial plan. The Authority currently has an approximately \$9 million plant expansion underway, which has been fully funded through contributions from the constituent municipalities contributions and the issuance of conduit bonds. Ongoing funding for capital improvements will be generated from operating revenues and year-end reconciling amounts from the municipalities. The monies accumulated are being earmarked for capital projects.

Economic Factors and Next Year's Budget

The funding composition for the treatment, operation, and maintenance for the Authority consists of establishing rates charged to the governmental units and ultimately the ratepayers are customers of the water treatment plant. The separate governmental units are responsible for collecting their own charges from the residents and other users within their district.

The Authority's plan for budget monitoring includes review of the budget vs. actual expenses on a monthly basis to determine if financial goals are being met. If financial expectations are not being met, options to establish alignment include: 1) procedures to establish increased rates to governmental units and charges for certain services so that maintenance and operations can continue uninterrupted; 2) a reduction of certain services performed for the local units and a reduction in capital expenditures on infrastructure needs. With the limiting factor on financial resources being what the ratepayer is able to pay, raising rates needs to be closely monitored throughout the year.

Comparative Information

The financial report shows comparison data. The Authority expects to continue to present full comparative statements.

Contacting the Authority's Management

The financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or additional information, contact the Authority at 10831 Kruger Road, New Buffalo, MI 49117.

STATEMENTS OF NET ASSETS
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 372,777	\$ 413,634
Certificates of deposit	414,405	402,445
Accounts receivable	212,654	101,797
Due from other fund	87,538	-
Prepaid insurance	3,965	28,110
Total current assets	<u>\$ 1,091,339</u>	<u>\$ 945,986</u>
Restricted assets:		
Cash and cash equivalents	<u>\$ 5,435,494</u>	<u>\$ 9,627,082</u>
Capital Assets	<u>\$ 9,323,165</u>	<u>\$ 4,460,244</u>
Total Assets	<u><u>\$ 15,849,998</u></u>	<u><u>\$ 15,033,312</u></u>
Liabilities:		
Accounts payable	\$ 620,630	\$ 69,277
Due to other fund	87,538	-
Payroll taxes payable	1,657	1,766
Total Liabilities	<u>\$ 709,825</u>	<u>\$ 71,043</u>
Net Assets		
Invested in capital assets	\$ 9,323,165	\$ 4,460,244
Unrestricted	5,817,008	10,502,025
Total Net Assets	<u>\$ 15,140,173</u>	<u>\$ 14,962,269</u>
Total Liabilities and Net Assets	<u><u>\$ 15,849,998</u></u>	<u><u>\$ 15,033,312</u></u>

GRSD SEWER AUTHORITYSTATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
DECEMBER 31, 2004 AND 2003

	2004	2003
Operating Revenue		
Sewer User Fees:		
City of New Buffalo	\$ 301,872	\$ 233,440
Chikaming Township	246,809	184,474
New Buffalo Township	125,409	113,972
Lake Charter Township	260,352	225,846
City of Bridgman	217,467	209,335
Weesaw Township	5,239	-
Other Fees:		
Waste hauling	61,286	54,158
Services rendered	70,000	41,313
Total operating revenues	\$ 1,288,434	\$ 1,062,538
Operating Expenses		
Salaries and wages	\$ 440,313	\$ 425,291
Payroll taxes	33,865	33,019
Employee benefits	210,255	199,176
Depreciation	143,472	123,755
Office supplies	3,138	2,210
Operating supplies	59,206	116,698
Professional fees	15,837	5,544
Legal	471	2,353
Board fees	3,300	4,860
Contractual services	47,591	6,416
Communications	18,304	20,557
Training and transportation	1,668	1,236
Insurance and bonds	69,792	51,707
Utilities	147,618	153,894
Equipment and sewer repairs	70,414	70,332
Vehicle repairs	5,787	2,774
Uniforms	3,690	-
Miscellaneous	407	1,076
Total operating expenses	\$ 1,275,128	\$ 1,220,898
Net operating income (loss)	\$ 13,306	\$ (158,360)
Non-operating income (expenses):		
Sale of fixed assets	\$ -	\$ 11,000
Interest expense	-	(1,170)
Interest income	164,598	29,991
Total non-operating income (expense)	\$ 164,598	\$ 39,821
Change in net assets	\$ 177,904	\$ (118,539)
Net Assets, Beginning of Year	14,962,269	15,080,808
Net Assets, End of Year	\$ 15,140,173	\$ 14,962,269

	2004	2003
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,399,291	\$ 1,089,140
Cash payments to suppliers for goods and services	(337,668)	(721,417)
Cash payments to employees for services	(440,313)	(425,294)
Net cash provided by (used in) operating activities	\$ 621,310	\$ (57,571)
Cash Flows from Non-Capital Financing Activities		
Contributed capital	\$ -	\$ 10,330,161
Cash Flows from Capital and Related Financing Activities		
Payments for acquisition or construction of capital assets	\$ (5,006,393)	\$ (624,288)
Proceeds from sale of assets	-	11,000
Interest paid on loans	-	(1,170)
Net cash used in capital and related financing activities	\$ (5,006,393)	\$ (614,458)
Cash Flows from Investing Activities		
Decrease (increase) in certificates of deposit	\$ (11,960)	\$ 56,097
Change in restricted assets	4,191,588	(9,449,105)
Interest received on investments	164,598	29,991
Net cash provided by (used in) investing activities	\$ 4,344,226	\$ (9,363,017)
Net Increase(Decrease) in Cash and Cash Equivalents	\$ (40,857)	\$ 295,115
Cash and Cash Equivalents-Beginning of year	413,634	118,519
Cash and Cash Equivalents-End of year	\$ 372,777	\$ 413,634
Reconciliation of Operating Income (Loss) to		
Net Cash Provided by (Used In) Operating Activities		
Operating income(loss)	\$ 13,306	\$ (158,360)
<i>Adjustments to reconcile net income(loss) to</i>		
<i>net cash provided by operating activities</i>		
Depreciation	143,472	123,755
<i>Change in assets and liabilities</i>		
Accounts receivable	(110,857)	(26,602)
Prepaid insurance	24,145	(5,077)
Accounts payable	551,353	8,486
Payroll taxes payable	(109)	227
Net Cash Provided by (Used In) Operating Activities	\$ 621,310	\$ (57,571)

Noncash operating, capital, and investing activities:

During the year there were no noncash activities.

NOTE 1. NATURE OF ORGANIZATION

The GRSD Sewer Authority (the "Authority") was established by the Townships of New Buffalo, Lake Charter, and Chikaming, and the City of New Buffalo. The City of Bridgman was admitted under a separate agreement in 2003. The Authority was incorporated on October 13, 1971 as the Galien River Sanitary District (the "District"), under the provisions of Act 233, Public Acts of Michigan of 1955, as amended. The Authority is governed by a board comprised of six (6) members, with one(1) representative appointed from each of the five (5) constituent municipalities and one (1) independent member elected by the other five (5) members. The Authority was formed to operate, maintain, administer, and manage a sewage collection and disposal system pursuant to Act 185, Public Acts of 1957, as amended, for the benefit of the constituent municipalities.

The GRSD Authority operates on 2 million gallons per day (MGD) sanitary sewage treatment plant and site to serve all of the local units, who have capacity rights and share the cost of the plant. In November 2003, the board approved the issuance of bonds and a 1.012 million gallon expansion. Following completion of the expansion the capacity rights will be allocated as follows:

	Final Expansion
Lake Charter Township	16.6%
City of New Buffalo	21.6%
Chikaming Township	28.6%
New Buffalo Township	16.6%
City of Brigman	16.6%
	<u>100.0%</u>

The Authority has the power to carry out the purposes of the plant and to acquire private property by purchase, construction, lease, gift, devise or condemnation and may hold, manage, control, sell, exchange or lease such property. The Authority may enter into a contract or contracts providing for the acquisition, purchase, construction, improvement, enlargement, extension, operation and financing of a sewage disposal system. They may issue negotiable bonds, secured by the contractual full faith and credit pledges of each contracting municipality. The Authority is also responsible for establishing rates charged to the governmental units. The separate governments are responsible for establishing and collecting their own charges from the residents and other users within their district.

NOTE 1. NATURE OF ORGANIZATION, CONCLUDED

The Authority's financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in section 2100 of the Governmental Accounting Standards Board's ("GASB") *Codification of Government Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Authority hold the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority.

Based on the aforementioned criteria, the Authority has no component units.

In the current year, the Authority also implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34"). Changes to the Authority's financial statements as a result of GASB 34 are as follows:

- A Management's Discussion and Analysis ("MD&A") section providing analysis of the Authority's overall financial position and results of operations has been included.
- Basic financial statements prepared using the full accrual accounting for all of the Authority's activities have been provided.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Authority also applies Financial Accounting Standard Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

A. Fund Accounting

The Authority uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority's functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority has only one fund, a proprietary fund.

Proprietary (Enterprise) Fund

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expensing including depreciation) of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**B. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The proprietary fund uses the accrual basis of accounting.

Revenues: Exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Expenses – Expenses are recognized at the time they are incurred.

C. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments available for current operations with an original maturity of three (3) months or less to be cash equivalents.

D. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current year, are recorded as prepaid items using the consumption method.

E. Inventories

Inventories, not held for resale, are accounted for on a purchase basis. Under the purchase method, inventories are treated as expenditures when acquired. Accordingly, no asset is reflected in the financial statements.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Costs relating to maintenance and repairs are charged to expense when they do not add value to the assets or materially extend the life, whereas those for renewals and betterments, when significant in amount, are capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Equipment	5 – 20 Years
System Improvements	20 – 40 Years
Vehicles	7 – 10 Years

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of (capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.) Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the activity of the proprietary fund. The Authority's operating revenues are sewer usage fees, waste hauling, and services rendered.

I. Contributions of Capital

Contributions of capital in the proprietary fund arise from outside contributions of capital assets, or from grants, or outside contributions of resources restricted to capital acquisition and construction.

J. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. Liability for Compensated Absences

The Board does not record a liability for compensated absences. The amount which may be accrued is undeterminable at the date of the balance sheets. It is estimated the amount would be immaterial to the presentation of the financial statements as a whole.

M. Budget

The Authority's annual budget is required to be adopted at least thirty days before the beginning of each fiscal year. Certified copies of the budget are submitted to each of the contracting governments. The annual budget includes estimated revenues and costs of operations, maintenance, and repairs of the plant, and development of the municipalities' interceptors for the fiscal year.

NOTE 3. PENSION PLAN

The Authority has established a Money Purchase Pension Plan (the "Plan") under Section 457 of the Internal Revenue Code. The plan allows the employees to make volunteer contributions to the plan up to 15% of eligible compensation.

The Authority contributes 7% - 9% of an eligible employee's compensation to be divided between the plan and an individual life insurance policy. All employees who are employed for at least 1,000 hours during a plan year, have at least one year of service, and are twenty-one years of age are eligible to participate. For 2004 and 2003, total contributions were \$29,609 and \$33,885, respectively.

NOTE 4. DEPOSITS AND INVESTMENTS

The Authority's deposits and investments at December 31, 2004 and 2003, are included on the balance sheet under the following classifications:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 372,777	\$ 413,634
Certificates of deposits	414,405	402,445
Restricted cash and cash equivalents	5,435,494	9,627,082
	<u>\$ 6,222,676</u>	<u>\$ 10,443,161</u>

At December 31, 2004, the Authority had deposits with local banks. The carrying amounts are \$6,222,676, with the bank balance being \$6,224,632. The Federal Deposit Insurance Corporation ("FDIC") provides the protection of the Authority's deposits.

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3 *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*:

Deposits:		
Insured (F.D.I.C.)	\$ 512,604	\$ 412,367
Uninsured and uncollateralized	5,709,872	10,030,594
Total Deposits	\$ 6,222,476	\$ 10,442,961
Undeposited cash (petty cash on hand)	200	200
Total Cash Balances	<u>\$ 6,222,676</u>	<u>\$ 10,443,161</u>

The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the authority evaluates each financial institution it deposits authority funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 5. RECEIVABLES AND PAYABLES

Receivables consist of accounts (fees) and are considered collectible in full, while payables are for normal trade expense. Both are summarized as follows:

	<u>2004</u>	<u>2003</u>
Accounts Receivable:		
Charges for services	<u>\$ 212,654</u>	<u>\$ 101,797</u>
Accounts Payable:		
Trade	<u>\$ 620,630</u>	<u>\$ 69,277</u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance at <u>1/1/2004</u>	<u>Additions</u>	Disposals/ <u>Reclass</u>	Balance at <u>12/31/2004</u>
Assets not being depreciated:				
Construction-in-progress	\$ 1,061,985	\$ 4,990,481	\$ (518,113)	\$ 5,534,353
Capital assets being depreciated:				
Equipment	\$ 402,684	\$ 15,912	\$ -	\$ 418,596
Sytem Improvements	3,653,652	-	518,113	4,171,765
Vehicles	133,599	-	-	133,599
Subtotal	<u>\$ 4,189,935</u>	<u>\$ 15,912</u>	<u>\$ 518,113</u>	<u>\$ 4,723,960</u>
Accumulated Depreciation:				
Equipment	\$ 185,685	\$ 29,576	\$ -	\$ 215,261
Sytem Improvements	521,343	104,294	-	625,637
Vehicles	84,648	9,602	-	94,250
	<u>\$ 791,676</u>	<u>\$ 143,472</u>	<u>\$ -</u>	<u>\$ 935,148</u>
Net capital assets being depreciated	<u>\$ 3,398,259</u>			<u>\$ 3,788,812</u>
Net capital assets	<u>\$ 4,460,244</u>			<u>\$ 9,323,165</u>

Depreciation expense of \$143,472 was charged directly to operations.

The Authority had commitments as of December 31, 2004 of approximately \$5 million for the completion of the plant expansion.

NOTE 7. BRIDGMAN AGREEMENT

The City of Bridgman, an existing customer of the Authority, was admitted as a fifth constituent member of the Authority. As part of the buy in agreement, the City of Bridgman agreed to the following contributions:

- One half the estimated cost of expansion (\$3,068,461)
- \$75,000 contribution for administration
- \$45,450 contribution to the main plant
- \$1,004,550 contribution for interceptors

NOTE 8. CONDUIT DEBT

On September 24, 2003, the GRSD Sewer Authority issued General Obligation Limited Tax Bonds for the design, acquisition, construction, and equipment improvements for expansion of the plant.

The Authority has contracted with the Cities of Bridgman and New Buffalo and the Township of New Buffalo to finance their respective portions of the project. Chikaming and Lake Charter Townships used funds on hand to pay their respective portions of the project.

The proceeds of the debt were allocated in the following proportions:

Bridgman City	41.10%
New Buffalo City	19.38%
New Buffalo Township	39.52%

The bonds are being issued pursuant to the provisions of Act 233 and resolutions adopted by the Authority and the Contracting Municipalities. The Bonds are issued in anticipation of and are payable solely from certain contractual payments to be made by the Contracting Municipalities to the Authority. The municipalities have pledged their limited tax, full faith, and credit for the payment of their respective proportion. The Authority has irrevocably pledged such payment against the principal and interest on the Bonds. The Bonds are not general obligations of the Authority and the Authority has no taxing power.

As of December 31, 2004, the total amount of outstanding conduit debt is \$8,090,000.

NOTE 9. WEESAW TOWNSHIP AGREEMENT

The Authority entered into a twenty year agreement with Weesaw Township (the "Township") to provide sewage treatment services for wastewater originating in the Township. The Authority agreed to provide up to a maximum amount of 100,000 gallons per day. The Township shall, at its own expense, construct, establish, maintain, repair and own a sewer main including lift stations or other equipment connecting into the Chikaming Township system. The agreement may be terminated after two years or more with a written notice, and at any time after the first fifteen years of the agreement term. The agreement only applies to the phase 1 of the construction regarding the tie-in by the Township into the system. Any additional sewer construction shall require an amendment to the agreement. At December 31, 2004, \$5,239 of fees was received.

NOTE 10. UNION

The employees have ratified a vote authorizing the International Union of Operating Engineers, Local 324, to represent them for purposes of Collective Bargaining. The Authority will begin negotiation in 2005.



ACCOUNTANT'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
GRSD Sewer Authority

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the GRSD Sewer Authority's basic financial statements. The following schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads 'McMurray, Marks & Edmunds'. A vertical red line is positioned to the right of the signature.

McMurray, Marks & Edmunds
April 29, 2005

GRSD SEWER AUTHORITY

SCHEDULE OF NET ASSETS FOR OPERATIONS AND CAPITAL ACTIVITY
DECEMBER 31, 2004 AND 2003

	Operations	Capital Projects	2004	2003
Assets				
Current assets:				
Cash and cash equivalents	\$ 344,387	\$ 28,390	\$ 372,777	\$ 413,634
Certificates of deposit	-	414,405	414,405	402,445
Accounts receivable	201,334	11,320	212,654	101,797
Due from other fund	-	87,538	87,538	-
Prepaid insurance	3,965	-	3,965	28,110
Total current assets	<u>\$ 549,686</u>	<u>\$ 541,653</u>	<u>\$ 1,091,339</u>	<u>\$ 945,986</u>
Restricted assets:				
Cash and cash equivalents	<u>\$ -</u>	<u>\$ 5,435,494</u>	<u>\$ 5,435,494</u>	<u>\$ 9,627,082</u>
Capital Assets	<u>\$ -</u>	<u>\$ 9,323,165</u>	<u>\$ 9,323,165</u>	<u>\$ 4,460,244</u>
Total Assets	<u><u>\$ 549,686</u></u>	<u><u>\$ 15,300,312</u></u>	<u><u>\$ 15,849,998</u></u>	<u><u>\$ 15,033,312</u></u>
Liabilities:				
Accounts payable	\$ 60,855	\$ 559,775	\$ 620,630	\$ 69,277
Due to other fund	87,538	-	87,538	-
Payroll taxes payable	1,657	-	1,657	1,766
Total Liabilities	<u>\$ 150,050</u>	<u>\$ 559,775</u>	<u>\$ 709,825</u>	<u>\$ 71,043</u>
Net Assets				
Invested in capital assets	\$ -	\$ 9,323,165	\$ 9,323,165	\$ 4,460,244
Unrestricted	399,636	5,417,372	5,817,008	10,502,025
Total Net Assets	<u>\$ 399,636</u>	<u>\$ 14,740,537</u>	<u>\$ 15,140,173</u>	<u>\$ 14,962,269</u>
Total Liabilities and Net Assets	<u><u>\$ 549,686</u></u>	<u><u>\$ 15,300,312</u></u>	<u><u>\$ 15,849,998</u></u>	<u><u>\$ 15,033,312</u></u>

GRSD SEWER AUTHORITY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR OPERATIONS AND CAPITAL ACTIVITY

DECEMBER 31, 2004 AND 2003

	<u>Operations</u>	<u>Capital Projects</u>	<u>2004</u>	<u>2003</u>
Operating Revenue				
Sewer User Fees:				
City of New Buffalo	\$ 266,247	\$ 35,625	\$ 301,872	\$ 233,440
Chikaming Township	210,400	36,409	246,809	184,474
New Buffalo Township	112,671	12,738	125,409	113,972
Lake Charter Township	257,586	2,766	260,352	225,846
City of Bridgman	217,467	-	217,467	209,335
Weesaw Township	5,239	-	5,239	-
Other Fees:				
Waste hauling	61,286	-	61,286	54,158
Services rendered	70,000	-	70,000	41,313
Total operating revenues	<u>\$ 1,200,896</u>	<u>\$ 87,538</u>	<u>\$ 1,288,434</u>	<u>\$ 1,062,538</u>
Operating Expenses				
Salaries and wages	\$ 440,313	\$ -	\$ 440,313	\$ 425,291
Payroll taxes	33,865	-	33,865	33,019
Employee benefits	210,255	-	210,255	199,176
Depreciation	-	143,472	143,472	123,755
Office supplies	3,138	-	3,138	2,210
Operating supplies	59,206	-	59,206	116,698
Professional fees	15,837	-	15,837	5,544
Legal	471	-	471	2,353
Board fees	3,300	-	3,300	4,860
Contractual services	47,591	-	47,591	6,416
Communications	18,304	-	18,304	20,557
Training and transportation	1,668	-	1,668	1,236
Insurance and bonds	69,792	-	69,792	51,707
Utilities	148,937	(1,319)	147,618	153,894
Equipment and sewer repairs	70,414	-	70,414	70,332
Vehicle repairs	5,787	-	5,787	2,774
Uniforms	3,690	-	3,690	-
Miscellaneous	135	272	407	1,076
Total operating expenses	<u>\$ 1,132,703</u>	<u>\$ 142,425</u>	<u>\$ 1,275,128</u>	<u>\$ 1,220,898</u>
Net operating income (loss)	<u>\$ 68,193</u>	<u>\$ (54,887)</u>	<u>\$ 13,306</u>	<u>\$ (158,360)</u>
Non-operating income (expenses):				
Intra-fund transfers	\$ (139,512)	\$ 139,512	\$ -	\$ -
Sale of fixed assets	-	-	-	11,000
Interest expense	-	-	-	(1,170)
Interest income	4,187	160,411	164,598	29,991
Total non-operating income (expense)	<u>\$ (135,325)</u>	<u>\$ 299,923</u>	<u>\$ 164,598</u>	<u>\$ 39,821</u>
Change in net assets	<u>\$ (67,132)</u>	<u>\$ 245,036</u>	<u>\$ 177,904</u>	<u>\$ (118,539)</u>
Net Assets, Beginning of Year	<u>466,768</u>	<u>14,495,501</u>	<u>14,962,269</u>	<u>15,080,808</u>
Net Assets, End of Year	<u><u>\$ 399,636</u></u>	<u><u>\$ 14,740,537</u></u>	<u><u>\$ 15,140,173</u></u>	<u><u>\$ 14,962,269</u></u>



April 29, 2004

To the Board of the
GRSD Sewer Authority
New Buffalo, MI

In planning and performing our audit of the financial statement of GRSD Sewer Authority (the "Authority") for the year ended December 31, 2004, we considered the Authority's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control structure and its operation that we consider opportunities for strengthening internal controls and operating efficiency.

**REVIEW GOVERNMENT ACCOUNTING STANDARD BOARD ("GASB") STATEMENT #40-
DEPOSIT AND INVESTMENT RISK DISCLOSURES.**

Effective December 31, 2006, governmental entities will be required to expand their current disclosure requirements addressing common risks of deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by the investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should also be part of the disclosure.

The Authority should review its investment policies to determine all common risk areas are identified and the appropriate level of risk for each area is quantified.

ADOPT CREDIT CARD USE POLICY

We noted the Authority uses credit cards for Authority business and we recommend the Authority adopt a credit card policy and ensure it meets the appropriate guidelines. Public Act 266 of 1995 authorizes the use of credit cards by the Authority and by resolution; the Authority must adopt a written policy that provides those guidelines, as follows, described by Department of Treasury Letter No. 2-96:

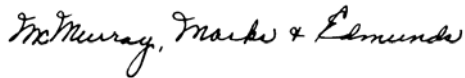
- a) A named officer or employee is responsible for the issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b) That the credit card may be used only by an officer or employee for the purchase of goods or services for the official business of the Authority.
- c) The officer or employee using the credit card must submit documentation detailing the goods or services purchased, cost, date of the purchase, and the official business.
- d) The officer or employee issued the card is responsible for its protection and custody and shall immediately notify the local unit if the card is stolen.

REVIEW CURRENT CREDIT CARD USE POLICY (CONCLUDED)

- e) The officer or employee must immediately surrender the card upon termination.
- f) For a system of internal controls to monitor the use of the credit card.
- g) Approval of credit care invoice **before** payment.
- h) That the balance including interest due on an extension of credit under the credit care arrangement shall be paid for not more than 60 days of the initial statement date. The Authority shall comply with this provision of the credit card policy.
- i) The policy must provide for disciplinary measures consistent with law for unauthorized use.
- j) Any other matters the governing body considers advisable.
- k) The total combined authorized credit limit of all cards issued by the Authority shall not exceed 5% of the total budget of the Authority for the current fiscal year. The Authority may include in its budget the authorization to pay the balance due on any credit cards, including the annual fee and interest.

The report is intended solely for the information and use of the GRSD Sewer Authority management, and others within the Authority, and is not intended to be and should not be used by anyone other than these parties.

We appreciate the courtesy and cooperation extended to us by you and members of the Authority during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.



McMurray, Marks & Edmunds
St. Joseph, MI